

Consolidated Financial Statements and Report of
Independent Certified Public Accountants in
Accordance with OMB Circular A-133

NHS Pennsylvania

June 30, 2014 and 2013

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Report of Independent Certified Public Accountants

Officers and Directors
NHS Pennsylvania

Report on the financial statements

We have audited the accompanying consolidated financial statements of NHS Pennsylvania, which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations and changes in unrestricted net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NHS Pennsylvania as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Schedule of Expenditures of Federal Awards for the year ended June 30, 2014, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Intellectual Developmental Disabilities Cost Report Schedule A - Expense Report and Expense Report Reconciliation for the year ended June 30, 2014, as required by the Waiver Direct Service Provider Audit Requirements of the Commonwealth of Pennsylvania, Department of Public Welfare, Office of Developmental Programs, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 30, 2014, on our consideration of NHS Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NHS Pennsylvania's internal control over financial reporting and compliance.

Grant Thornton LLP

Philadelphia, Pennsylvania

October 30, 2014

CONSOLIDATED BALANCE SHEETS

June 30,

ASSETS	2014	2013
Current assets		
Cash	\$ 1,803,769	\$ 951,251
Restricted cash	223,746	299,927
Accounts receivable, net	21,562,928	22,524,123
Due from affiliates	9,111,361	4,064,220
Prepaid expenses and other current assets	395,773	368,239
Total current assets	33,097,577	28,207,760
Property and equipment, net	9,543,783	12,917,702
Other assets	878,613	974,349
Total assets	<u>\$43,519,973</u>	<u>\$42,099,811</u>
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities		
Short-term borrowings	\$14,501,702	\$12,826,702
Current maturities of long-term debt	82,103	1,885,217
Deferred revenue, current	420,845	420,831
Accrued payroll	5,829,460	5,322,179
Accrued expenses and other current liabilities	4,107,555	4,407,032
Total current liabilities	24,941,665	24,861,961
Deferred revenue and other long-term liabilities	4,247,742	3,580,932
Long-term debt, net of current maturities	709,799	1,836,337
Total liabilities	29,899,206	30,279,230
Unrestricted net assets	<u>13,620,767</u>	<u>11,820,581</u>
Total liabilities and unrestricted net assets	<u>\$43,519,973</u>	<u>\$42,099,811</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN
UNRESTRICTED NET ASSETS**

Years ended June 30,

	<u>2014</u>	<u>2013</u>
Revenues		
Net consumer service revenue	\$ 155,804,631	\$ 156,640,185
Other revenue	<u>343,957</u>	<u>438,110</u>
Total revenues	156,148,588	157,078,295
Expenses		
Salaries	74,158,390	74,507,511
Employee benefits	19,172,249	18,852,862
Purchased services	16,205,172	16,221,154
Occupancy	9,452,255	9,063,805
Insurance	2,204,796	2,091,360
Supplies and other	30,002,330	28,151,562
Provision for bad debts	1,983,690	4,101,715
Depreciation and amortization	1,025,161	1,426,113
Interest	<u>61,633</u>	<u>217,090</u>
Total expenses	<u>154,265,676</u>	<u>154,633,172</u>
Income from operations before other item	1,882,912	2,445,123
Other item		
Change in fair value of interest rate swap agreements	<u>(82,726)</u>	<u>130,337</u>
Excess of revenues over expenses and change in unrestricted net assets	1,800,186	2,575,460
Unrestricted net assets, beginning of year	<u>11,820,581</u>	<u>9,245,121</u>
Unrestricted net assets, end of year	<u>\$ 13,620,767</u>	<u>\$ 11,820,581</u>

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,

	2014	2013
Operating activities		
Change in unrestricted net assets	\$ 1,800,186	\$ 2,575,460
Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	1,025,161	1,426,113
Provision for bad debts	1,983,690	4,101,715
Change in fair value of interest rate swap agreements	82,726	(130,337)
Changes in operating assets and liabilities		
Restricted cash	76,181	14,529
Accounts receivable	(1,022,495)	(4,205,023)
Due from affiliates	(299,879)	(4,069,105)
Prepaid expenses and other current assets	(27,534)	61,460
Other assets	17,914	16,026
Deferred revenue, current	14	(110,618)
Accrued payroll	507,281	(101,083)
Accrued expenses and other current liabilities	(299,477)	(878,030)
Deferred revenue and other long-term liabilities	661,906	660,187
Net cash provided by (used in) operating activities	4,505,674	(638,706)
Investing activities		
Purchase of property and equipment	(2,398,504)	(1,100,504)
Net cash used in investing activities	(2,398,504)	(1,100,504)
Financing activities		
Net proceeds from (payments on) short-term borrowings	1,675,000	(2,000,000)
Proceeds from issuance of long-term debt	-	127,500
Principal payments on long-term debt	(2,929,652)	(322,584)
Net cash used in financing activities	(1,254,652)	(2,195,084)
Net increase (decrease) in cash	852,518	(3,934,294)
Cash, beginning of year	951,251	4,885,545
Cash, end of year	\$ 1,803,769	\$ 951,251
Supplemental cash flow information		
Interest paid	\$ 74,762	\$ 212,841
Increase in mortgage payable for the purchase of property	\$ -	\$ 127,500

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE A - ORGANIZATION

NHS Pennsylvania is a not-for-profit 501(c)(3), tax-exempt organization incorporated in the Commonwealth of Pennsylvania.

NHS Pennsylvania is the sole corporate member of NHS Stevens Center, which is the parent of Stevens Housing Corporation. NHS Pennsylvania and its subsidiary provide comprehensive community mental health and intellectual developmental disabilities services, consisting of crisis outpatient, partial hospitalization, consulting and education. NHS Pennsylvania also provides residential, education, aftercare, foster care and case management services to residents of central and western Pennsylvania, Louisiana and New York.

NHS Human Services, Inc. (NHS) is the sole corporate member of NHS Pennsylvania. NHS is a not-for-profit, tax-exempt corporation that serves as the parent organization of its for-profit and not-for-profit organizations, which are committed to delivering, and supporting the delivery of, mental health, intellectual developmental disabilities, drug and alcohol, juvenile justice, education and other health and human services to the residents of Pennsylvania, Louisiana, New York, New Jersey, Maryland, Delaware and Virginia.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The consolidated financial statements of NHS Pennsylvania are prepared and presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for health care organizations. The consolidated financial statements include the accounts of NHS Pennsylvania and its subsidiary. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

2. Use of Estimates

In preparing the consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of the allowance for doubtful accounts for receivables, derivatives, allocation of administrative expenses, assumptions used to determine liabilities for self-insured employee benefit plans and the useful lives of property and equipment. Actual results could differ from those estimates.

3. Cash and Restricted Cash

NHS Pennsylvania participates in a consolidated cash management account with other NHS affiliates. All cash receipts are directed to lock boxes associated with the short-term borrowings (Note G) prior to being transferred to the consolidated account. Restricted cash represents client funds held by NHS Pennsylvania.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Net Consumer Service Revenue and Accounts Receivable

NHS Pennsylvania receives its funding through contracts with states, various cities and counties, federal programs, and agreements with managed care and insurance organizations. These contracts generally fall into two categories: cost reimbursement and fee-for-service.

Net consumer service revenue and accounts receivable are reported at the estimated net realizable amounts from consumers, third-party payors, and others for services rendered, including estimated retroactive settlements under reimbursement agreements with third-party payors. Payment arrangements include prospectively determined fee-for-service rates. The ultimate determination of amounts reimbursable under cost reimbursement contracts is based upon allowable costs to be reported to and audited by grantors and/or their agents. NHS Pennsylvania recognized approximately \$1,800,000 and \$2,900,000 of retroactive settlements during the fiscal years ended June 30, 2014 and 2013, respectively.

Laws and regulations governing these programs are complex and subject to interpretation. NHS Pennsylvania believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future regulatory review and interpretation.

5. Allowance for Doubtful Accounts

The allowance for doubtful accounts is maintained to absorb losses in NHS Pennsylvania's accounts receivable. NHS Pennsylvania continually monitors accounts receivable for collectability issues. An allowance for doubtful accounts is based upon management's judgment and is established based on a review of the types of individual accounts, prior collection history, the nature of the service provided and other pertinent factors. Accounts deemed uncollectible are charged to the allowance. The allowance for doubtful accounts was approximately \$3,161,000 and \$4,528,000 at June 30, 2014 and 2013, respectively.

6. Earned but Unbilled Accounts Receivable

NHS Pennsylvania is reimbursed by funding agencies for expenses in program-funded operations. Certain expenses are accrued for financial reporting purposes, but are not billed as program expenditures until paid. To properly match revenue and expenses, NHS Pennsylvania records an earned but unbilled accounts receivable for this accrual, and the related liability is included in accrued expenses. At June 30, 2014 and 2013, earned but unbilled accounts receivable of \$199,798 and \$158,080, respectively, are included in other current assets on the consolidated balance sheets and are attributable to accrued vacation expenses.

7. Property and Equipment

Property and equipment are recorded at cost. Depreciation has been provided by the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and building improvements	10 - 30 years
Equipment, furniture and automobiles	3 - 20 years

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Deferred Revenue

Portions of grant awards are utilized to purchase property and equipment. NHS Pennsylvania has deferred the recognition of grant revenue related to these acquisitions until the equipment is depreciated to properly match grant revenue and depreciation expense. This deferral is recorded as deferred revenue. Such property acquired is considered to be owned by NHS Pennsylvania while used in the program for which it was purchased or in other future authorized programs; however, the funding agencies maintain a reversionary interest in the property. Its disposition, as well as the ownership of any proceeds therefrom, is subject to government regulations.

9. Derivative Instruments and Hedging Activity

NHS Pennsylvania entered into interest rate swap agreements to manage its exposure to movements in interest rates on long term obligations. The use of interest rate swaps reduces the exposure to this risk, with the intent to reduce interest expense to NHS Pennsylvania over time. NHS Pennsylvania does not use derivatives for trading purposes. Derivatives are recorded at fair value. The net cash amounts paid or received on the contracts are accrued and recognized as adjustments to interest expense over the periods of the contracts (Note H.3).

NHS Pennsylvania has established policies and procedures to limit the potential for counterparty credit risk, including establishing limits for credit exposure and continually assessing the creditworthiness of counterparties. NHS Pennsylvania's exposure to credit risk associated with its derivative financial instruments is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. As of June 30, 2014, NHS Pennsylvania was not exposed to any risk of loss.

10. Income Taxes

A tax position is recognized or derecognized by NHS Pennsylvania and its subsidiary based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. NHS Pennsylvania and its subsidiary do not believe their consolidated financial statements include any material uncertain tax positions. NHS Pennsylvania and its subsidiary are no longer subject to U.S. Federal and state tax examinations for the year ended June 30, 2010 and prior.

11. Reclassifications

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year consolidated financial statements. These reclassifications had no impact on the total assets, total liabilities or net assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE C - NET CONSUMER SERVICE REVENUE

Concentrations of revenues are as follows for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Managed care organizations	41%	42%
Medical Assistance	26%	25%
County contracts	19%	19%

Net accounts receivable consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
County	\$ 5,420,504	\$ 5,531,308
Managed care organizations	6,870,451	7,797,514
Medical Assistance	6,676,571	6,624,262
Other third parties	<u>2,595,402</u>	<u>2,571,039</u>
	<u>\$ 21,562,928</u>	<u>\$ 22,524,123</u>

NOTE D - PENSION PLAN

NHS has a 403(b) plan for substantially all employees of NHS and certain affiliates, including NHS Pennsylvania. Vesting in the plan is immediate. Employee contributions to the plan are matched at 50%, up to 4% of the employee's salary. During the year ended June 30, 2013, NHS approved an additional discretionary one-time match of 2% of the employee's salary.

Employer contributions, including the additional one-time match, for the years ended June 30, 2014 and 2013 were \$345,679 and \$787,798, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Land and improvements	\$ 709,178	\$ 764,767
Buildings and building improvements	12,731,700	16,905,510
Furniture, equipment and automobiles	<u>7,941,029</u>	<u>6,920,983</u>
Total property and equipment	21,381,907	24,591,260
Less accumulated depreciation	<u>(11,838,124)</u>	<u>(11,673,558)</u>
Property and equipment, net	<u>\$ 9,543,783</u>	<u>\$ 12,917,702</u>

Depreciation expense related to the property and equipment was \$1,062,539 and \$1,495,336 for the years ended June 30, 2014 and 2013, respectively.

NOTE F - RELATED PARTY TRANSACTIONS

NHS Pennsylvania is one of a group of affiliated organizations related by way of common ownership and/or membership. NHS is the sole corporate member or parent company of each of the affiliated organizations. NHS Pennsylvania has significant transactions with members of the affiliated group for administrative and support services, and facility and equipment rentals. Repayment and receipt of amounts due to or from affiliated organizations is expected when cash is available. The Board of Directors authorized NHS, at the discretion of management, to charge a management fee to all non-profit subsidiaries of which it is the sole corporate member, in an amount not to exceed net income for the fiscal year. The amount due from affiliated organizations was \$9,111,361 and \$4,064,220 as of June 30, 2014 and 2013, respectively. Depreciation and amortization of assets held by one related party but used by others is charged based on usage of the respective assets. For the years ended June 30, 2014 and 2013, depreciation and amortization of \$37,378 and \$72,442, respectively, in excess of the amount charged to it was charged from NHS Pennsylvania to NHS and other affiliated organizations.

For the years ended June 30, 2014 and 2013, NHS Pennsylvania incurred the following expenses with related parties:

	<u>2014</u>	<u>2013</u>
Administration and support services	\$ 18,905,481	\$ 15,804,279
Facilities management	1,254,329	1,251,721
Management fee	1,900,000	3,100,000
Facility and auto leases and repairs and maintenance	<u>1,168,081</u>	<u>858,789</u>
	<u>\$ 23,227,891</u>	<u>\$ 21,014,789</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE G - SHORT-TERM BORROWINGS

NHS Pennsylvania has a revolving credit loan with maximum borrowings to \$15,000,000. Interest is payable monthly at the one-month LIBOR rate plus 3.25% (effective rate of 3.44% and 3.50% at June 30, 2014 and 2013, respectively). The loan expires in February 2015. The outstanding balance of this loan was \$14,501,702 and \$12,826,702 at June 30, 2014 and 2013, respectively. This line of credit facility is secured by all assets of NHS Pennsylvania.

NOTE H - LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

	2014	2013
Mortgages and note payable	\$ 791,902	\$ 3,721,554
Less current maturities	<u>(82,103)</u>	<u>(1,885,217)</u>
	<u>\$ 709,799</u>	<u>\$ 1,836,337</u>

1. Mortgages and Note Payable

NHS Pennsylvania obtained financing through various mortgage agreements to purchase residential properties. Each note is secured by the underlying property. Principal and interest payments are made in monthly installments throughout the terms of the mortgages (5 - 20 years). Interest rates on the mortgages are based on both fixed and variable rates ranging from 5.25% to 7.13%. On July 24, 2013, Human Services Housing Company, LLC, a related party, entered into a tax-exempt note and a taxable note through the Limerick Township Industrial Development Authority (LTIDA). The notes were used to finance the balance of certain mortgages payable, including \$2,796,304 of NHS Pennsylvania's mortgages payable. At June 30, 2014 and 2013, NHS Pennsylvania has mortgages payable outstanding in the amount of \$541,902 and \$3,411,554, respectively.

At June 30, 2014 and 2013, NHS and NHS Stevens Center have a secured note payable outstanding in the amount of \$250,000 and \$310,000, respectively. The note bears interest at the Wall Street Prime Rate plus 0.50% (effective rate of 3.75% at June 30, 2014 and 2013). Principal payments in the amount of \$5,000 are due monthly. This note expires in July 2018.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE H - LONG-TERM DEBT - Continued

2. Future Maturities and Fair Value of Long-Term Debt

Future maturities of principal payments on long-term debt, for the next five years, are as follows:

Year ending June 30:

2015	\$ 82,103
2016	83,378
2017	84,823
2018	86,310
2019	286,625

The estimated fair value of long-term debt, based on quoted market prices for the same or similar issues, approximates its carrying value at June 30, 2014 and 2013.

3. Derivative Instruments - Interest Rate Swaps

In conjunction with the 2012 Cheltenham Township Industrial Developmental Authority (CTIDA) Bonds (Note J.3), on May 21, 2013, NHS Pennsylvania entered into an interest rate swap agreement with a financial institution. The swap agreement fixes the payments on a notional amount consistent with 2012 CTIDA Bonds outstanding. NHS Pennsylvania has agreed to pay a fixed rate of 1.27%. The current swap agreement expires on May 13, 2022.

In conjunction with the 2012 West Norriton Township Industrial Development Authority (WNTIDA) and LTIDA Bonds (Note J.3), on May 21, 2013, NHS Pennsylvania entered into an interest rate swap agreement with a financial institution. The swap agreement fixes the payments on a notional amount consistent with 2012 WNTIDA and LTIDA Bonds outstanding. NHS Pennsylvania has agreed to pay a fixed rate of 0.46%. The current swap agreement expires on June 1, 2018.

The following tables provide details of cash flow hedging instruments:

<u>Swap</u>	<u>Balance sheet location</u>	<u>Fair value</u>	<u>Notional amount outstanding</u>	<u>Rate paid</u>	<u>Rate received</u>	<u>Counterparty</u>
2012 CTIDA	Other assets	\$ 52,515	\$ 6,169,255	1.2700%	68% LIBOR	M&T Bank
2012 WNTIDA & LTIDA	Other liabilities	(4,904)	11,685,000	0.4600%	68% LIBOR	M&T Bank
		\$ 47,611	\$ 17,854,255			

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE H - LONG-TERM DEBT - Continued

The reported termination assets and liabilities, netting to \$47,611 as of June 30, 2014 in the table below, represent the estimated amounts NHS Pennsylvania would receive or pay to terminate these contracts were they to be terminated at fiscal year end and prior to their scheduled end dates.

	2012 CTIDA Swap	2012 WNTIDA & LTIDA Swap	Total
Termination assets June 30, 2012	\$ -	\$ -	\$ -
Change in fair value	<u>112,663</u>	<u>17,674</u>	<u>130,337</u>
Termination assets June 30, 2013	112,663	17,674	130,337
Change in fair value	<u>(60,148)</u>	<u>(22,578)</u>	<u>(82,726)</u>
Termination assets (liabilities) June 30, 2014	<u>\$ 52,515</u>	<u>\$ (4,904)</u>	<u>\$ 47,611</u>

NOTE I - FAIR VALUE MEASUREMENTS

Fair Value Measurements

NHS Pennsylvania has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy in accordance with U.S. GAAP. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the hierarchy under U.S. GAAP are described below:

- Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Financial assets and liabilities whose values are based on one or more of the following:
 1. Quoted prices for similar assets or liabilities in active markets;
 2. Quoted prices for identical or similar assets or liabilities in non-active markets;
 3. Pricing models whose inputs are observable for substantially the full term of the asset or liability; or
 4. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.
- Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE I - FAIR VALUE MEASUREMENTS - Continued

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The NHS Pennsylvania assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The following tables present information about the NHS Pennsylvania asset and liability measured at fair value on a recurring basis as of June 30, 2014 and 2013 and indicate the fair value hierarchy using the market approach valuation technique to determine such fair value.

Description	2014			Total
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Interest rate swap	\$ -	\$ 52,515	\$ -	\$ 52,515
Total assets	\$ -	\$ 52,515	\$ -	\$ 52,515
Liabilities				
Interest rate swap	\$ -	\$ 4,904	\$ -	\$ 4,904
Total liabilities	\$ -	\$ 4,904	\$ -	\$ 4,904
Description	2013			Total
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Interest rate swap	\$ -	\$ 130,337	\$ -	\$ 130,337
Total assets	\$ -	\$ 130,337	\$ -	\$ 130,337

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE I - FAIR VALUE MEASUREMENTS - Continued

In reference to the financial instruments held by NHS Pennsylvania, the following provides a brief description of the types of financial instruments, the methodology for estimating fair value, and the level within the hierarchy of the estimate.

Interest Rate Swaps

The interest rate swap agreements are measured by alternative pricing sources with reasonable levels of price transparency in markets that may not be continuously active. Based on the complex nature of interest rate swap agreements, the markets these instruments trade in are not as efficient and are less liquid than that of the more mature Level 1 markets. These markets do, however, have comparable, observable inputs in which an alternative pricing source values these assets in order to arrive at a fair market value. These characteristics classify interest rate swap agreements as a Level 2 input.

NOTE J - COMMITMENTS AND CONTINGENCIES

1. Lease Commitments

NHS Pennsylvania has entered into lease agreements for real estate, vehicles and equipment with various vendors. NHS Pennsylvania also enters into formal leases with affiliates. Various leases, both with vendors and affiliates, are renewed on a year-to-year basis, and are thus excluded from the future minimum rental payments in the following table.

The following is a schedule of future minimum lease payments for operating leases with noncancellable lease terms in excess of one year:

<u>Year ending June 30:</u>	
2015	\$ 4,005,185
2016	3,579,971
2017	2,763,252
2018	1,935,529
2019	843,970
Thereafter	<u>1,811,308</u>
	<u>\$ 14,939,215</u>

Rental expense for the years ended June 30, 2014 and 2013 totaled \$7,285,657 and \$7,101,469, respectively.

2. Professional Liability Insurance

NHS Pennsylvania maintains professional liability insurance coverage of \$1,000,000 per occurrence up to an annual aggregate of \$3,000,000. The cost of professional liability insurance approximately amounted to \$1,326,000 and \$1,219,000 in 2014 and 2013, respectively.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE J - COMMITMENTS AND CONTINGENCIES - Continued

There are known incidents occurring through June 30, 2014 that may result in the assertion of claims against NHS Pennsylvania, and other claims may be asserted arising from services provided to consumers in the past. In management's opinion, NHS Pennsylvania has adequate insurance coverage with respect to each of these incidents and does not believe that ultimate resolution of such claims would materially impact the accompanying consolidated balance sheet.

3. Guarantee of DebtCheltenham Township Industrial Developmental Authority Revenue Bonds, Series 2012

On May 16, 2012, the Obligated Group of entities within NHS and NHS Pennsylvania issued \$6,500,000 of revenue bonds through the CTIDA. The 2012 CTIDA Bonds were issued by the CTIDA to refund outstanding bond issues of NHS Youth Services, Inc., a related party.

The obligations under the bond agreement are joint and several obligations of the Obligated Group of entities within NHS and NHS Pennsylvania. At June 30, 2014, \$6,158,113 was outstanding under the bond obligations, which are guaranteed through February 2033.

West Norriton Township Industrial Development Authority Revenue Bonds, Series 2012

On December 3, 2012, the Obligated Group of entities within NHS and NHS Pennsylvania issued \$8,165,000 of revenue bonds through the WNTIDA. The 2012 WNTIDA Bonds were issued by WNTIDA to refund outstanding bond issues of NHS.

The obligations under the bond agreement are joint and several obligations of the Obligated Group of entities within NHS and NHS Pennsylvania. The 2012 WNTIDA Bonds are secured by all assets of NHS Pennsylvania and gross revenues of the Obligated Group of entities within NHS. At June 30, 2014, \$5,842,500 was outstanding under the bond obligations, which are guaranteed through June 2018.

Limerick Township Industrial Development Authority Revenue Bonds, Series 2012

On December 3, 2012, the Obligated Group of entities within NHS and NHS Pennsylvania issued \$8,165,000 of revenue bonds through the LTIDA. The 2012 LTIDA Bonds were issued by LTIDA to refund outstanding bond issues of NHS.

The obligations under the bond agreement are joint and several obligations of the Obligated Group of entities within NHS and NHS Pennsylvania. The 2012 LTIDA Bonds are secured by all assets of NHS Pennsylvania and gross revenues of the Obligated Group of entities within NHS. At June 30, 2014, \$5,842,500 was outstanding under the bond obligations, which are guaranteed through June 2018.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE J - COMMITMENTS AND CONTINGENCIES - Continued

West Norriton Township Industrial Development Authority Revenue Bonds, Series 2013

On November 5, 2013, the Obligated Group of entities within NHS and The Association for Independent Growth, Inc. (TAIG), a related party outside the Obligated Group, issued \$9,925,000 of revenue bonds through the WNTIDA, with NHS Pennsylvania as a guarantor. The 2013 WNTIDA Bonds were issued to refinance outstanding debt of NHS and other related parties. At June 30, 2014, \$9,108,116 was outstanding under the bond obligations, which are guaranteed through April 2029.

Limerick Township Industrial Development Authority Revenue Bonds, Series 2013

On November 5, 2013, the Obligated Group of entities within NHS and TAIG, a related party outside the Obligated Group, issued \$1,881,012 (Series A) and \$1,732,239 (Series B) of revenue bonds through the LTIDA, with NHS Pennsylvania as a guarantor. The 2013 LTIDA Bonds were issued to refinance outstanding debt of NHS and other related parties. At June 30, 2014, \$1,776,444 Series A and \$1,691,407 Series B was outstanding under the bond obligations, which are guaranteed through April 2022 and January 2027, respectively.

Term Loan and Line of Credit

On June 27, 2013, Life Tree Pharmacy Services, Inc. (Life Tree), a related party, entered into a \$1,400,000 term loan with a financial institution, with NHS Pennsylvania as the guarantor, to finance the purchase of assets of Life Tree. The loan is secured by all assets of Life Tree. At June 30, 2014 and 2013, \$1,168,177 and \$1,400,000, respectively, was outstanding under this term loan, which is guaranteed through July 2018.

On June 27, 2013, Life Tree entered into a \$1,000,000 line of credit with a financial institution, with NHS Pennsylvania as the guarantor, to finance working capital of Life Tree. The line is secured by all assets of Life Tree. At June 30, 2014 and 2013, \$-0- was outstanding under this line, which expires June 2015.

Taxable Note

On November 5, 2013, the Obligated Group of entities within NHS and TAIG issued a \$3,853,869 taxable note with a financial institution, with NHS Pennsylvania as a guarantor. The taxable note was issued to refinance an outstanding line of credit. At June 30, 2014, \$3,690,441 was outstanding on the note, which is guaranteed through November 2023.

The guarantee of debt requires NHS Pennsylvania to comply with certain terms, covenants, provisions and conditions, including, but not limited to, limitations on additional indebtedness and satisfaction of certain measures of financial performance. NHS Pennsylvania was in compliance with all financial covenants as of June 30, 2014 and 2013.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

NOTE J - COMMITMENTS AND CONTINGENCIES - Continued

4. Self-Insured Employee Benefit Plans

NHS provides vision, dental, prescription, unemployment and workers' compensation coverage on a self-insured basis to substantially all employees of NHS.

Management has established premiums for the self-funded plans based upon the combined claims history of all plan members. Additionally, NHS maintains a reinsurance policy for workers' compensation claims that exceed specified deductibles on an individual and aggregate basis.

Due to the complexities and uncertainties involved in the actuarial evaluations, actual results could vary significantly from the estimated projections.

5. Litigation

NHS Pennsylvania is from time to time subject to routine litigation incidental to its business. Management and its counsel believe that insurance policies are sufficient to cover potential settlements and that any pending litigation will not have a materially adverse effect on NHS Pennsylvania's consolidated balance sheets.

NOTE K - FUNCTIONAL EXPENSES

NHS Pennsylvania is committed to delivering, or supporting the delivery of, behavioral health and intellectual developmental disabilities to residents within its geographic location. Expenses related to providing these services are as follows for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Program expenses		
Behavioral health	\$ 90,664,343	\$ 94,548,783
Intellectual developmental disabilities	32,719,144	31,681,748
Education	11,059,757	7,901,154
General and administrative expenses		
Indirect costs	17,922,432	17,401,487
Management fee	<u>1,900,000</u>	<u>3,100,000</u>
Total expenses	<u>\$ 154,265,676</u>	<u>\$ 154,633,172</u>

NOTE L - SUBSEQUENT EVENTS

NHS Pennsylvania evaluated its June 30, 2014 consolidated financial statements for subsequent events through October 30, 2014. NHS Pennsylvania is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTAL INFORMATION

NHS Pennsylvania

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2014

Grantor/pass-through grantor/program title	Federal program name	Federal CFDA number	Grant period	Expenditures
<u>U.S. Department of Health and Human Services</u>				
Pass-through Dauphin County Mental Health/Intellectual Disabilities	Medical Assistance Program (Medicaid)	93.778	07/01/13 - 06/30/14	\$ 22,004
Pass-through Pennsylvania Department of Public Welfare	Medical Assistance Program (Medicaid)	93.778	07/01/13 - 06/30/14	20,271,402
				20,293,406
Pass-through Cumberland County Drug and Alcohol Commission	Block Grants for Prevention and Treatment of Substance Abuse	93.959	07/01/13 - 06/30/14	15,568
Pass-through Various County Children and Youth Programs	Temporary Assistance for Needy Families (TANF)	93.558	07/01/13 - 06/30/14	100,014
Pass-through Various County Children and Youth Programs	Foster Care: Title IV- E	93.658	07/01/13 - 06/30/14	1,908,764
Pass-through Beaver County Behavioral Health	Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	07/01/13 - 06/30/14	229,999
Pass-through Fulton County Children and Youth Services	Stephanie Tubbs Jones Child Welfare Services Program	93.645	07/01/13 - 06/30/14	6,587
Pass-through Various County Mental Health and IDD Programs	Block Grants for Community Mental Health Services	93.958	07/01/13 - 06/30/14	673,115
Pass-through Various County Mental Health and IDD and Children and Youth Programs	Social Services Block Grant	93.667	07/01/13 - 06/30/14	959,468
Total U.S. Department of Health and Human Services				24,186,921
<u>U.S. Department of Housing and Urban Development</u>				
Direct Funding	Supportive Housing Program	14.235	07/01/13 - 06/30/14	55,930
<u>U.S. Department of Justice</u>				
Pass-through Beaver County Behavioral Health	Second Chance Act Re-entry Initiative	16.812	07/01/13 - 06/30/14	929,302
Pass-through Beaver County Behavioral Health	Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	07/01/13 - 06/30/14	18,144
Pass-through Beaver County Behavioral Health	Edward Byrne Memorial Justice Assistance Grant	16.738	07/01/13 - 06/30/14	71,624
Total U.S. Department of Justice				1,019,070
Total Expenditures of Federal Awards				\$ 25,261,921

The accompanying notes to the Schedule of Expenditures of Federal Awards should be read in conjunction with this schedule.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2014

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the grant expenditures of NHS Pennsylvania and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other guidelines of pass-through agencies. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic consolidated financial statements.

NOTE B - PENNSYLVANIA CONFIRMATION

The audit confirmation received from the Commonwealth of Pennsylvania, Department of Public Welfare contained Medical Assistance payment history for the period July 1, 2013 through June 30, 2014. These payments represented all payments made through the Provider Reimbursement and Operations Management Information Systems (PROMISE). This payment history contained payments for expenditures for the period ended June 30, 2014, as well as prior fiscal years. The Schedule of Expenditures of Federal Awards contains only the expenditures of the funds received related to the year ended June 30, 2014.

**Report of Independent Certified Public Accountants
on Internal Control Over Financial Reporting and on
Compliance and Other Matters Required by
*Government Auditing Standards***

Officers and Directors
NHS Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of NHS Pennsylvania, which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of operations and changes in unrestricted net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 30, 2014.

Internal control over financial reporting

In planning and performing our audit of the consolidated financial statements, we considered NHS Pennsylvania's internal control over financial reporting ("internal control") to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of NHS Pennsylvania's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of NHS Pennsylvania's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in NHS Pennsylvania's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and other matters

As part of obtaining reasonable assurance about whether NHS Pennsylvania's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NHS Pennsylvania's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NHS Pennsylvania's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Philadelphia, Pennsylvania

October 30, 2014

**Report of Independent Certified Public Accountants on
Compliance for Each Major Federal Program and on
Internal Control Over Compliance Required by
OMB Circular A-133**

Officers and Directors
NHS Pennsylvania

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Report on compliance for each major federal program

We have audited the compliance of NHS Pennsylvania with the types of compliance requirements described in the *U.S. Office of Management and Budget's OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. NHS Pennsylvania's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to NHS Pennsylvania's federal programs.

Auditor's responsibility

Our responsibility is to express an opinion on compliance for NHS Pennsylvania's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The above-mentioned standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NHS Pennsylvania's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal programs. However, our audit does not provide a legal determination of NHS Pennsylvania's compliance.

Opinion on each major federal program

In our opinion, NHS Pennsylvania complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2014.

Report on internal control over compliance

Management of NHS Pennsylvania is responsible for designing, implementing, and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NHS Pennsylvania's internal control over compliance with the types of compliance requirements that could have a direct and material effect on the major federal programs to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NHS Pennsylvania's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in NHS Pennsylvania's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Intended purpose

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Philadelphia, Pennsylvania

December 19, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported
- Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

☐ yes ☒ no

Identification of major programs:

CFDA NumbersName of Federal Program or Cluster

93.778

Medical Assistance (Medicaid)

93.658

Foster Care: Title IV-E

Dollar threshold used to distinguish between type A and type B programs:

\$757,858

Auditee qualified as low-risk auditee?

☒ yes ☐ no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended June 30, 2014

Section II - Financial Statement Findings

No matters required to be reported.

Section III - Federal Award Findings and Questioned Costs

No matters required to be reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2014

None noted.



Report of Independent Certified Public Accountants on Indirect Cost Allocation

Officers and Directors
NHS Pennsylvania

We have examined management's assertion about NHS Pennsylvania's compliance with the Commonwealth of Pennsylvania, Department of Public Welfare, Section 4300.94 of the Title 4300 regulations during the year ended June 30, 2014. Management is responsible for NHS Pennsylvania's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about NHS Pennsylvania's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about NHS Pennsylvania's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on NHS Pennsylvania's compliance with the Commonwealth of Pennsylvania, Department of Public Welfare, Section 4300.94 of the Title 4300 regulations.

In our opinion, management's assertion that NHS Pennsylvania is in compliance with the Commonwealth of Pennsylvania, Department of Public Welfare, Section 4300.94 of the Title 4300 regulations during the year ended June 30, 2014 is fairly stated, in all material respects.

This report is intended for the information and use of the Audit Committee, Board of Directors and management of NHS Pennsylvania; the Commonwealth of Pennsylvania, Department of Public Welfare; and any of their authorized representatives and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Philadelphia, Pennsylvania

December 19, 2014

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**INTELLECTUAL DEVELOPMENTAL DISABILITIES COST REPORT
SCHEDULE A - EXPENSE REPORT**

Year ended June 30, 2014

	Excluded Non- Allowable Waiver Expenses	Eligible Expenses for Waiver Participants
Expenses by category		
Program direct care staff salary/wages (Schedule D)	\$ -	\$ 11,100,067
Program direct care staff ERE (Schedule D)	-	3,499,785
Other program staff salary/wages (Schedule D-1)	-	2,685,073
Other program staff ERE (Schedule D-1)	-	844,627
Contracted staff (Schedule D-2)	-	1,141,515
Administrative staff salary/wages (Schedule D-3)	-	242,163
Administrative staff ERE (Schedule D-3)	-	72,582
Program supplies (Schedule F)	-	43,704
Other vehicle expense (Schedule E-1)	-	-
Other program expense (Schedule F)	30,481	3,814,950
Transportation - participant motor vehicle (Schedule E-1)	-	-
Transportation - participant (Schedule I)	-	1,084,113
Other occupancy expense (Schedule F-1)	-	333,170
Depreciation - buildings (Schedule E)	-	14,652
Depreciation - fixed assets/equipment (Schedule E-2)	-	11,758
Total expenses, excluding residential occupancy	30,481	24,888,159
Contributions/revenue (expense offset) (Schedule B)	-	561
Expenses, net of contributions/revenue	30,481	24,887,598
Residential occupancy		
Residential occupancy (Schedule J)	-	-
Total expenses	\$ 30,481	\$ 24,888,159

Parenthetical references above refer to other schedules within the Intellectual Developmental Disabilities Cost Report, which are not included as part of the supplemental information.

**INTELLECTUAL DEVELOPMENTAL DISABILITIES COST REPORT
SCHEDULE A - EXPENSE REPORT RECONCILIATION**

Year ended June 30, 2014

Schedule A Column F Reconciliation			
	Audit	Cost Report	Difference [A]
	Eligible Expenses for Waiver Participants	Eligible Expenses for Waiver Participants	Eligible Expenses for Waiver Participants
Expenses by category			
Program direct care staff salary/wages (Schedule D)	\$11,100,067	\$11,100,067	\$ -
Program direct care staff ERE (Schedule D)	3,499,785	3,499,785	-
Other program staff salary/wages (Schedule D-1)	2,685,073	2,685,073	-
Other program staff ERE (Schedule D-1)	844,627	844,627	-
Contracted staff (Schedule D-2)	1,141,515	1,141,515	-
Administrative staff salary/wages (Schedule D-3)	242,163	242,163	-
Administrative staff ERE (Schedule D-3)	72,582	72,582	-
Program supplies (Schedule F)	43,704	43,704	-
Other vehicle expense (Schedule E-1)	-	-	-
Other program expense (Schedule F)	3,814,950	3,814,950	-
Transportation - participant motor vehicle (Schedule E-1)	-	-	-
Transportation - participant (Schedule I)	1,084,113	1,084,113	-
Other occupancy expense (Schedule F-1)	333,170	333,170	-
Depreciation - buildings (Schedule E)	14,652	14,652	-
Depreciation - fixed assets/equipment (Schedule E-2)	11,758	11,758	-
Total expenses, excluding residential occupancy	24,888,159	24,888,159	-
Contributions/revenue (expense offset) (Schedule B)	561	561	-
Expenses, net of contributions/revenue	24,887,598	24,887,598	-
Residential occupancy			
Residential occupancy (Schedule J)	-	-	-
Total expenses	\$24,888,159	\$24,888,159	\$ -

Schedule B Column B Reconciliation			
	Audit	Cost Report	Difference
Total revenue - waiver LOB	\$31,143,482	\$31,143,482	\$ -

Parenthetical references above refer to other schedules within the Intellectual Developmental Disabilities Cost Report, which are not included as part of the supplemental information.